

CHAPTER 3**OVERVIEW OF THE REPORTING ENTITY AND SUPPLEMENTAL FINANCIAL
AND MANAGEMENT INFORMATION****0301 OVERVIEW OF THE REPORTING ENTITY**

030101. The Overview of the Reporting Entity is the first part of the annual financial statement. For many readers (e.g., nonaccountants), it serves as the only opportunity to make the technical presentations that follow lucid and useful. For many high-level decision makers, it must convey substantive information and conclusions when time does not permit those individuals to make an in-depth analysis of the technical information. The Overview must provide readers with a clear and concise understanding of the reporting entity's activities, accomplishments, financial condition and results, problems and needs. It should tell the reader whether and how well the mission of the reporting entity is being accomplished and what, if anything, needs to be done to improve either program performance or financial performance.

030102. To accomplish this purpose, the Overview must be more than simply a summary of the information contained in the Principal Statements. The preparer of the Overview must consider and select performance measures and data relevant to the reporting entity's mission and activities; analyze the data and discern what they disclose about the entity's accomplishments or lack thereof; determine whether and why the results might vary from prior years, established standards or similar entities' results; display this information in creative ways; and write succinct, candid narratives. Moreover, in preparing the Overview, the preparer must consider not only program performance, but also financial performance and the relationship of program performance to the reporting entities financial condition and results.

030103. The Overview should incorporate the strategic initiatives of the Department of Defense (DoD) as provided in the Secretary's "Annual Report to the President and the Congress." The presentation should relate to the general goals and objectives for the agency's major functions; the resources, systems, and processes that are critical to achieving these goals; how the general goals and objectives will be achieved; and a description of key external factors that could affect achievement of these general goals.

030104. At a minimum, the overview should contain sections which address mission and organizational structure; performance goals and results; and, the limitations of the financial statements.

030105. The Overview also may identify critical areas in need of financial and management improvement. The Overview should include a narrative discussion and analysis of the financial condition of the reporting entity. This discussion should present information based on the results of an analytical review of relevant financial and performance data of the programs, activities and funds that make up the reporting entity.

0302 ORGANIZATION AND PRESENTATION OF THE OVERVIEW

The following is a recommended way to organize and present the Overview.

030201. Message from the Component Head. The following “Message from the Secretary of the Army” from the Army FY 1995 financial statement is provided as an example:

“The United States Army is the world’s preeminent land combat force, trained and ready to meet today’s challenges. It has served this nation proudly for over 200 years, both at home and abroad. In the last year, American soldiers have upheld democracy in Haiti, ensured regional stability in Southwest Asia, delivered relief supplies to refugees in Rwanda, deterred aggression in Korea, and prepared to keep peace in Bosnia. The Army also serves at home by assisting domestic authorities during emergencies and natural disasters.

In order to conduct our operations at home and abroad, in war and in peace, the Army must have well trained, highly disciplined soldiers. We must provide them with modern equipment and offer them and their families the best quality of life possible. A high quality Army--one that is prepared to execute a variety of missions--costs money. Our resources, more than any other factor, affect the Army’s capabilities. Resources determine our recruiting efforts, our training programs, our modernization plans, and our force structure.

The American people expect a high quality Army, and they expect its leaders to be good stewards of public resources. Since the Department of the Army was selected as a pilot agency under the Chief Financial Officers (CFO) Act, we have been required to report on our financial position annually. This Annual Financial Report, the fifth and final report required under the pilot project, shows that we have been responsible stewards.

As we converted to corporate-style financial reporting, we recognized the need for modern, integrated systems and effective business practices. The Army has made many notable improvements and is now recognized as a leader in financial management reform in the Department of Defense. The bottom line is that Americans can have confidence in both the U.S. Army and its financial management.”

030202. Description of the Reporting Entity. This section should:

A. Name the reporting entity in a clear manner that leaves no doubt as to whether the reporting entity is an entire organization or an activity or group of activities within an organization. Identify the commercial functions and the revolving, trust, and other fund accounts covered by the financial statement. Also, this section should identify any fund accounts that have been excluded that one might expect to be covered by the statement.

B. State the mission and major goals of the reporting entity, including reference to the entity’s legislative mandate, if appropriate.

C. Identify the type and provide information on the numbers of individuals and/or groups served by or benefiting from the entity’s major program(s).

D. Provide indicators of the size of the major program(s), e.g., dollars expended, population served, and the numbers of people employed in carrying out these program(s).

E. Describe the manner in which the reporting entity is organized to provide the major program(s), including information related to the geographic locations of the organization (e.g., numbers of local, district, state, and regional offices).

F. Identify the major sources of funds for the program(s), the major uses of these funds, i.e., types or purposes of the expenditures, and, if appropriate, the entity's significant assets and/or liabilities. Consideration should be given to presenting this information in table or chart form, as discussed in section E. of this document.

030203. Performance Goals and Results. Government-wide implementation of Government Performance and Results Act (GPRA) occurs with the plans and reports for FY 1999. Prior to the requirement to implement GPRA, many agencies will increasingly include measures of program performance in the budget, Accountability Reports, and other materials they prepare for Public Law 103-62, "The Government Performance and Results Act of 1993," implementation. Performance measures in the overview section of the financial statements should be consistent with the measures used by agencies as part of their GPRA implementation.

030204. Limitations of the Financial Statements. The Overview should contain the following:

A. The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of the 31 U.S.C. 3515(b).

B. While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

C. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

0303 PERFORMANCE GOALS AND RESULTS

030301. The entity's program and financial results should be expressed in terms of objectives, relevant measures that disclose the extent to which its programs achieving their intended objectives. The entity's financial results should be summarized in a manner that would illustrate significant indicators of its financial operations for the reporting period and changes in financial condition during the period.

030302. Measuring costs is an integral part of measuring the efficiency and effectiveness of programs. Efficiency is measured by relating outputs (the quantity of services provided) to inputs (the cost incurred to provide the services). Effectiveness is measured by the outcome or the degree to which a predetermined objective is met, and it is commonly combined with the cost information to show “cost effectiveness.” Entities should strive to develop and report objective measures that, to the extent possible, provide information about the cost effectiveness of programs.

030303. The reported measures of program and financial performance should be consistent with information on major goals and objectives from the agency’s strategic plan and should be linked to the programs featured in the Statement of Net Cost.

030304. To be useful, performance measures should: be clearly set forth, be objective and quantifiable, be meaningful and relevant, relate to measures developed in the entity’s strategic planning processes, and present the outputs and outcomes of the program, not just the inputs or processes of the program.

030305. The presentation of the measures should: include both positive and negative results, present historical and future trends (if possible), be illustrated with charts and graphs (whenever possible) for easy identification of trends, explain the significance of the trends, provide comparison of actual results to goals or benchmarks, show variations from goals and plans and provide other explanatory information that would help readers understand the significance of the measures, results, and any variations from the goals or plans.

030306. To further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what is planned to be done to improve financial program performance.

030307. The performance measures presented in the overview should relate to the programs’ purpose and goals, be consistent with measures previously included in budget documents and other materials related to implementation of GPRA, and linked to the programs presented in the Statement of Net Cost. The measures in the overview should be limited to the entity’s most significant program and financial measures. Additional measures should be presented as “Other Accompanying Information.” Management has broad discretion in the manner in which performance information is displayed. Among the options available to management is a statement format similar to the Statement of Program Performance Measures illustrated in Statements of Federal Financial Accounting Concepts No. 2. Management’s display of performance information should include sufficient explanatory information that should help the readers understand the significance of the measures, the results, and any deviations from goals or plans.

0304 SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

Each financial statement should contain, when appropriate, “Supplemental Financial and Management Information” that supports information presented in the Overview or which otherwise would enhance an understanding of the financial condition and operations of the reporting entity.